1. Classify each of the following according to labor market classification in the Current Population Survey (employed, unemployed or not in the labor force):
   a) Employed.
   b) Unemployed.
   c) Not in the labor force.

2. Suppose that the Bureau of Labor Statistics reports the following data (in thousands) for October -- labor force: 142,000; employment: 133,500; working-age population: 212,000
   a) Unemployment = 6%; LFPR = 67%, not in labor force = 70,000.
   b) Natural rate of unemployment = 4%, cyclical unemployment = 2%

3. What crucial assumption about the nature of the productivity of labor implies that the aggregate demand for labor is negatively related to the real wage? Explain. What crucial assumption about the value of leisure implies that the aggregate supply of labor is positively related to the real wage? Explain.

   If the marginal product of labor is diminishing in the quantity of labor (i.e. the product of the marginal worker declines as more workers are hired), then profit-maximizing firms will hire more workers when the real wage falls (and vice versa). From the point of view of the firm, the real wage is the marginal cost and the marginal product is the marginal benefit of hiring workers. If the marginal value of leisure falls as leisure increases (so that the marginal cost of working rises), then the quantity of labor supplied will increase with the real wage. From the point of view of the household, the real wage is the marginal benefit of working.

4. Use the model of the aggregate labor market with flexible wages to predict the effects on real wages and employment of the following:
   a) Since marginal product of workers increases, the demand for labor will shift to the right, causing equilibrium real wages and employment to rise in the long-run.
   b) Labor supply shifts to the left, causing real wages to rise and employment to fall.
   c) If leisure becomes more valuable, workers will require a higher real wage to supply any given number of hours; thus, the labor supply curve will shift to the left: real wages rise and employment falls.

5. Headlines proclaim that a severe shortage of nurses threatens health care. If indeed there is a shortage in the market for nurses, what would you predict will happen to the wages paid to nurses (at least in the long-run), and why?

   If there is a shortage, this must mean that at current real wages, the demand for nurses exceeds the supply. If nothing else happens to the supply and demand curves,
then we would expect nursing wages to rise in the long-run. And if the supply for nurses is elastic, then we would also expect an increase in the employment of nurses.